

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04  
SIL-01 OMB-01 EA-10 IO-13 NEA-10 ICA-11 OPIC-03  
AGRE-00 SS-15 /117 W  
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TO SECSTATE WASHDC 2864  
INFO AMCONSUL ADANA  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMCONSUL ISTANBUL  
AMCONSUL IZMIR  
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 5626

USEEC

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E.O. 11652: GDS  
TAGS: ECON, EFIN, TU  
SUBJ: PRELIMINARY ANALYSIS OF TURKEY'S FOURTH FIVE-YEAR DEVELOPMENT  
PLAN STRATEGY

SUMMARY: THE DRAFT STRATEGY OF TURKEY'S FOURTH FIVE- YEAR  
DEVELOPMENT PLAN EMPHASIZES RAPID ECONOMIC GROWTH THROUGH INVESTMENT  
IN HEAVY INDUSTRY. THE STRATEGY PRESERVES A GROWTH PLAN ADOPTED IN  
1972 (TO PREPARE TURKEY TO COMPETE AS A FULL MEMBER OF THE EC  
BY 1995) WITHOUT REGARD TO CHANGES WHICH HAVE OCCURRED BOTH  
IN THE WORLD ECONOMY AND IN TURKEY SINCE THAT TIME. IN THE  
OPINION OF THE EMBASSY, THE PLAN STRATEGY IS UNREALISTIC AND  
DOES NOT DEAL ADEQUATELY WITH THE PROBLEMS CURRENTLY FACING  
TURKEY'S ECONOMY. END SUMMARY.

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1. IN 1972, TURKEY'S STATE PLANNING ORGANIZATION (SPO)  
PREPARED A 22 YEAR DEVELOPMENT OUTLINE WHICH EMPHASIZED RAPID  
ECONOMIC GROWTH WITH THE AIM OF TRANSFORMING TURKEY INTO AN  
INDUSTRIAL NATION ABLE TO JOIN THE EUROPEAN ECONOMIC COMMUNITY

(EEC) AS AN EQUAL PARTNER IN 1995. THE DRAFT STRATEGY OF THE FOURTH FIVE-YEAR DEVELOPMENT PLAN (1979-1983) IS BASICALLY AN ATTEMPT TO MAKE UP FOR THE SHORTFALLS OF THE THIRD PLAN PERIOD (1973-1977) AND ACCELERATE GROWTH SO THAT THE ECONOMY CAN MEET ITS LONG-TERM OBJECTIVES. IN EMBASSY'S OPINION, BASED ON PRESS REPORTS AND DISCUSSIONS WITH AN ADVISER TO THE STATE PLANNING ORGANIZATION, THE MAIN PROBLEM WITH THE FOURTH PLAN STRATEGY IS THAT IT WAS APPARENTLY DEVELOPED WITHOUT TAKING INTO ACCOUNT EITHER THE CURRENT FOREIGN EXCHANGE AND FISCAL CONSTRAINTS OR THE ONEROUS DEBT SERVICE FACING TTURKEY IN THE NEXT FEW YEARS.

2. THE FOURTH PLAN GOALS ARE BASICALLY THE SAME AS THOSE OF THE THIRD PLAN: INCREASE THE INDUSTRIAL SECTOR'S SHARE IN GNP, INCREASE MANUFACTURED EXPORTS, IMPROVE INCOME DISTRIBUTION, SOLVE THE LONG-TERM UNEMPLOYMENT PROBLEM, AND RAISE THE STANDARD OF LIVING. THE DIFFERENCE BETWEEN THE TWO PLANS IS THAT THE MACROECONOMIC TARGETS OF THE FOURTH PLAN ARE SUBSTANTIALLY HIGHER IN MANY CASES.

#### MACROECONOMIC GROWTH TARGETS

( ANNUAL AVERAGE PERCENTAGE CHANGE IN CONSTANT PRICES)

3RD PLAN (1973-1977) FOURTH PLAN (1979-1983)

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|                     | TARGET | ACTUAL | TARGET |
|---------------------|--------|--------|--------|
| GNP GROWTH          | 7.9    | 6.5    | 8.3    |
| AGRICULTURAL SECTOR |        |        |        |
| GROWTH              | 3.8    | 3.7    | 5.0    |
| INDUSTRIAL SECTOR   |        |        |        |
| GROWTH              | 11.3   | 9.0    | 11.0   |
| EXPORT GROWTH       | 9.4    | 17.2   | 16.0   |
| FIXED CAPITAL       |        |        |        |
| INVESTMENTS         | 7.7    | 15.1   | 11.0   |
| DOMESTIC SAVINGS    | 13.6   | 6.3    | 13.0   |
| PUBLIC SECTOR       |        |        |        |
| SAVINGS             | 18.9   | 3.3    | 20.0   |
| MARGINAL SAVINGS    |        |        |        |
| RATE                | 38.0   | 16.4   | 35.0   |

3. THE PLAN STRATEGY SETS AN ANNUAL AVERAGE GNP GROWTH RATE OF 8.3 PERCENT. INDUSTRY'S SHARE OF GNP IS TO GROW FROM 20 PERCENT IN 1978 TO 30 PERCENT IN 1983 WHILE AGRICULTURE'S SHARE DROPS FROM 26 PERCENT TO 20 PERCENT. EXPORTS ARE TO GROW BY AN AVERAGE OF 16 PERCENT A YEAR, AND THE STRUCTURE OF EXPORTS

IS TO CHANGE SO THAT BY 1983, MANUFACTURED GOODS WILL ACCOUNT FOR 60 PERCENT OF TOTAL EXPORTS COMPARED WITH 33 PERCENT IN 1977. ACCORDING TO THE STRATEGY, EXPORTS ARE TO REACH DT BILLION AND IMPORTS \$8 BILLION IN 1983.

4. TO ACHIEVE THESE RAPID GROWTH AND INDUSTRIALIZATION TARGETS, FIXED CAPITAL INVESTMENTS TOTALING TL 1.5 TRILLION IN 1978 PRICES (US \$60 BILLION) ARE PLANNED DURING THE FIVE-YEAR PERIOD. THIS TL 300 BILLION ANNUAL AVERAGE INVESTMENT IS 50 PERCENT MORE THAN TL 202 BILLION IN FIXED CAPITAL INVESTMENTS CALLED FOR IN THE 1978 ANNUAL DEVELOPMENT PROGRAM. THE PLAN RELIES ON PUBLIC SECTOR ENTERPRISES TO PROVIDE DYNAMISM TO THE ECONOMY SINCE MOST OF THE INVESTMENT IS TARGETED FOR STATE-OWNED INDUSTRY.  
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5. DOMESTIC SAVINGS ARE TO FINANCE MUCH OF THIS INVESTMENT. THEY ARE PROJECTED TO INCREASE BY 13 PERCENT A YEAR, A RATE WHICH WOULD REQUIRE SAVING 35 PERCENT OF EACH ADDITIONAL UNIT INCREASE IN INCOME. THE PUBLIC SECTOR IS TO PROVIDE THE LARGEST CONTRIBUTION TO THE INCREASE IN SAVINGS. PUBLIC SECTOR SAVINGS ARE TO RISE BY AN ANNUAL DRAPE OF 20 PERCENT DURING THE PLAN PERIOD. TO REACH THIS GOAL, CURRENT PUBLIC EXPENDITURE IS SCHEDULED TO INCREASE BY ONLY 9 PERCENT A YEAR WHILE PUBLIC REVENUE SHOULD RISE BY 15 PERCENT. BASED ON PAST PERFORMANCE, THESE SAVINGS TARGETS ARE HIGHLY UNREALISTIC. IN 1977, DOMESTIC SAVINGS DECLINED BY 7.2 PERCENT AND THE MARGINAL SAVINGS RATE WAS A NEGATIVE 25 PERCENT. IT IS IMPROBABLE THAT THE INCREASES PROJECTED FOR DOMESTIC SAVINGS CAN BE ACHIEVED GIVEN CONTINUATION OF RATES OF INFLATION CURRENTLY IN EXCESS OF 50 PERCENT. EVEN  
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DURING 1973-1977, A PERIOD OF RELATIVELY MODERATE INFLATION FOR TURKEY, THE AVERAGE ANNUAL INCREASE IN DOMESTIC SAVINGS WAS ONLY 6.3 PERCENT.

6. THE ACQUISITION OF THE MOST MODERN TECHNOLOGY IS VIEWED BY SPO THEORETICIANS AS THE TOOL BY WHICH TURKEY WILL BE ABLE TO MAKE THE GREAT LEAP FORWARD. TURKEY'S PLANNERS REALIZE THAT TECHNOLOGY IS NOT STATIC AND MUST BE IMPROVED CONTINUALLY IF IT IS TO REMAIN COMPETITIVE. THEY ALSO REALIZE THAT MOST USEFUL TECHNOLOGY IS THE PROPERTY OF PRIVATE CORPORATIONS. THEREFORE, THE GOVERNMENT HAS DECREED THAT ALL COMPANIES WITH FOREIGN CAPITAL WILL BE EXPECTED TO SET UP RESEARCH AND DEVELOPMENT UNITS FOR THE PURPOSE OF PROCESSING TECHNICAL ADVANCE WITHIN THEIR OWN STRUCTURE, AS WELL AS ADOPTING THE TRANSFERRED TECHNOLOGY TO THE CONDITIONS OF THE COUNTRY AND TRANSMITTING IT TO THE TURKISH PERSONNEL. WHILE TIS SOUNDS NICE IN THEORY, FEW PRIVATE INVESTORS WOULD CONSIDER SETTING UP R&D FACILITIES IN A COUNTRY LIKE TURKEY WITH ITS LIMITED MARKET, POOR RESEARCH FACILITIES, AND FOREIGN TRADE REGIME WHICH VIRTUALLY ELIMINATES COMPETITION IN THE DOMESTIC MARKET. END LIMITED OFFICIAL USE  
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7 COMMENT: TURKEY'S FOURTH PLAN STRATEGY WOULD BE AN AMBITIOUS UNDERTAKING FOR A WEALTHY DEVELOPING COUNTRY LIKE VENEZUELA OR IRAN. IT IS INAPPROPRIATE FOR TURKEY. THE PLAN IGNORES THE FACT THAT TURKEY IS VIRTUALLY BANKRUPT AND HAS NO PROSPECTS OF BEING ABLE TO SERVICE ITS DEBT IN THE FORESEEABLE FUTURE. THE PLANNING PROCESS ALSO APPEARS TO OVERLOOK SOME IMPORTANT BOTTLENECKS. FOR EXAMPLE, THE SPO ESTIMATES THAT THE DEMAND FOR ENERGY WILL RISE BY 8.9 PERCENT ANNUALLY BETWEEN 1976 AND 1992 AS PLANNED PROJECTS IN STEEL, CHEMICAL, AND ALUMINUM INDUSTRIES COME ON STREAM; HOWEVER, ENERGY PRODUCTION IS PROJECTED TO INCREASE BY ONLY 5.5 PERCENT ANNUALLY. CLEARLY, TROUBLE LIES AHEAD, SINCE ENERGY SUPPLY IS ALREADY FAR SHORT OF DEMAND IN 1978.

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8. IT IS PERHAPS INDICATIVE OF THE ECONOMIC FOG AT THE TOP OF THE GOVERNMENT THAT THE COUNCIL OF MINISTERS REPORTEDLY SPENT TEN AND ONE-HALF HOURS DEBATING WHETHR THE GROWTH RATE TARGETS OF THE FOURTH PLAN WERE HIGH ENOUGH. (THEY WEREN'T; AND SPO WAS ORDERED TO INCREASE ITS ORIGINAL PROJECTIONS FROM 8 PERCENT TO 8.3 PERCENT.)

9. IN OUR VIEW, THE PLAN IS ESSENTIALLY A POLITICAL DOCUMENT. TURKEY CANNOT REALISTICALLY EXPECT TO ACHIEVE AN AVERAGE ANNUAL GROWTH RATE OF 8.3 PERCENT IN THE NEXT FIVE YEARS. IT LACKS ADEQUATE DOMESTIC RESOURCES TO DO SO AND EXTERNAL RESOURCES WILL SIMPLY NOT BE AVAILABLE TO FINANCE THIS HIGH GROWTH RATE UNLESS THE GOVERNMENT SHOWS GREATER WILLINGNESS THAN AT PRESENT TO TAKE THE DOMESTIC MEASURES NEEDED TO RESTORE CREDIT WORTHINESS. THE GOVERNMENT APPARENTLY CANNOT TOLERATE THE PUBLICATION OF A PLANNING DOCUMENT THAT PROJECTS REALISTIC TARGETS FOR THIS BANKRUPT COUNTRY.  
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## Message Attributes

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